

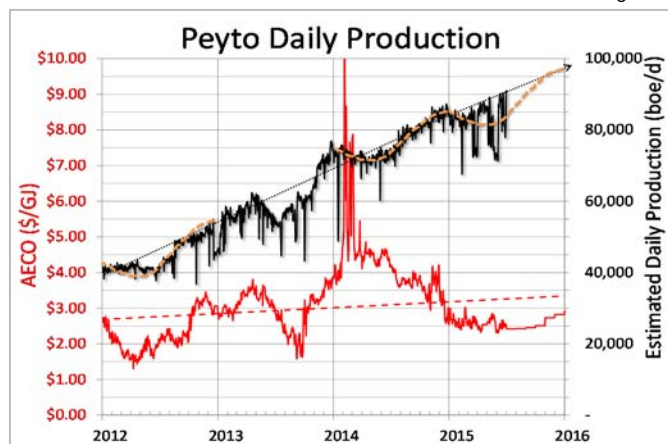
Peyto Exploration & Development Corp. President's Monthly Report

July 2015

From the desk of Darren Gee, President & CEO

When we can produce at capability, production is on track at around 90,000 boe/d, as shown in Figure 1 (time for new pens soon). Unfortunately, June was just as bad as some of the other months this year for TCPL outages. Between TCPL and the NEB, it would benefit the Canadian natural gas industry if these two parties could quickly get on with restoring Alberta's system capability. The reality is that Canadian gas producers are losing market share fast enough - we don't need to be jamming a stick in our own spokes.

Figure 1



Source: Peyto

As in the past, this report includes an estimate of monthly capital spending as well as our field estimate of production for the most recent month (see Capital Investment and Production tables below).

Capital Investment*

2014/15 Capital Summary (millions\$ CND)*

	Q1	Q2	Q3	Q4	2014	Jan	Feb	Mar	Q1	Apr	May
Acq.	0	0	0	0	0.3	2	0	1	3	0	0
Land & Seismic	7	8	0	6	21.3	0	0	4	4	1	0
Drilling	80	68	83	81	310.8	26	18	25	70	19	16
Completions	36	48	46	54	183.1	16	13	14	43	11	8
Tie ins	16	10	11	14	51.3	2	2	3	7	3	3
Facilities	40	16	40	26	122.2	5	6	1	12	2	2
Total	179	151	180	180	690	52	39	47	138	35	28

Production*

2014/15 Production ('000 boe/d)*

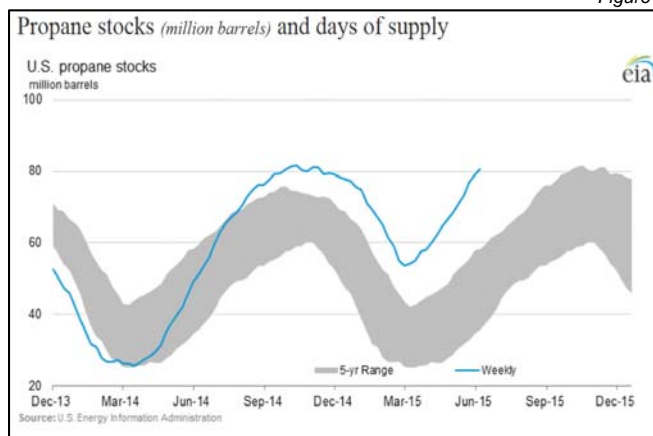
	Q1 14	Q2 14	Q3 14	Q4 14	2014	Jan	Feb	Mar	Q1 15	Apr	May	June	Q2 15
Sundance	49.4	51.7	57.2	59.4	54.4	57.8	56.5	55.3	56.5	57.9	54.5	58.9	57.1
Ansell	15.7	14.2	14.3	16.5	15.2	17.2	16.7	16.6	16.8	17.1	14.6	14.5	15.4
Brazeau	1.6	1.3	1.2	3.2	1.8	3.9	4.4	4.7	4.3	6.9	6.3	6.1	6.4
Kakwa	2.4	2.4	2.4	2.3	2.4	2.2	2.1	2.3	2.2	2.2	2.2	2.0	2.1
Other	3.2	2.5	2.4	2.0	2.5	1.9	1.9	1.4	1.7	1.8	1.0	2.0	1.6
Total	72.3	72.1	77.5	83.3	76.3	83.0	81.6	80.3	81.6	85.9	78.6	83.5	82.6

*This is an estimate based on real field data, not a forecast, and the actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.

Propane Pricing Problems

US propane stocks are opposite of what they were a year ago. Too much supply and insufficient winter demand has created more inventory than can be used in the short term (Figure 2).

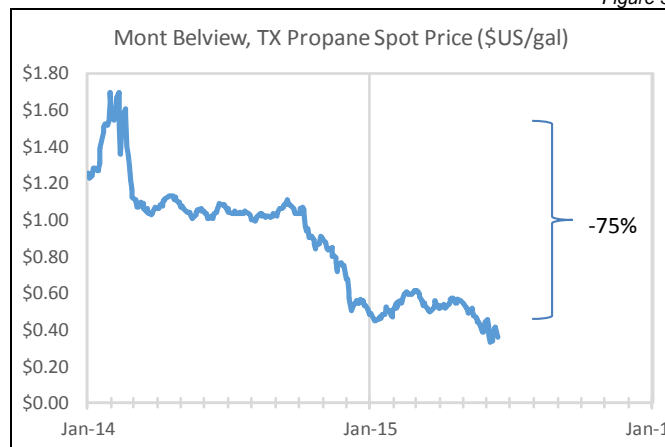
Figure 2



Source: EIA

As you would expect, propane prices are down, now a whopping 75%, from a year ago (Figure 3).

Figure 3



Source: EIA

Canadian propane inventories and prices have followed much the same trend. And when you consider the fixed transportation and fractionation (refining) costs, it's not surprising that the realized propane price for many producers has actually turned negative.

Unfortunately, the usual solution for low prices – shutting in production and reducing supply – isn't so easy for propane. The decision is a bit more complex than that, and so some explanation is required.

Peyto Exploration & Development Corp.

President's Monthly Report

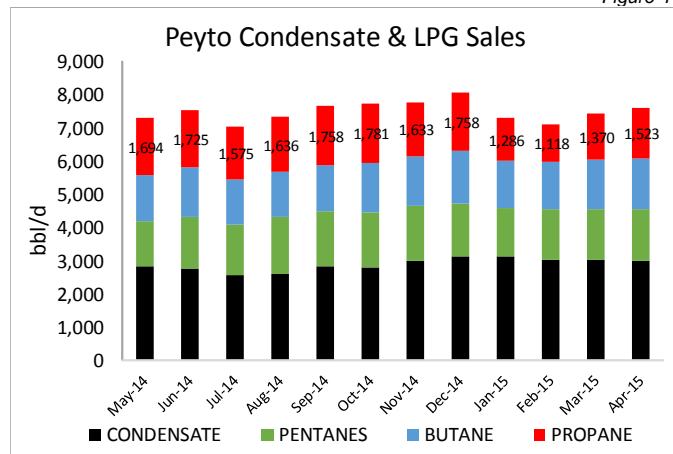
July 2015

From the desk of Darren Gee, President & CEO

Starting back in the reservoir, raw natural gas is typically at a temperature and pressure where propane molecules (C3H8) are in gaseous phase – as are the methane (C1H4), ethane (C2), butane (C4), and many of the heavier hydrocarbon chains (C5+). As this raw gas is produced up the wellbore, the temperature and pressure drops and the heavier hydrocarbons condense into liquid form. What tends to arrive at the low pressure inlet of our gas plants, for example, is a mix of liquid condensates and pentanes, along with gaseous lighter hydrocarbons.

These gases still contain too much of the heavier hydrocarbons to safely consume in our homes, so Peyto has to process the gas (dry it and cool it) to remove the water vapour and condense even more of the heavier hydrocarbons out of the gas. Our sales products, at the outlet of our facilities, ends up being stabilized condensates, a mixture of pressurized LPG (Liquid Petroleum Gases), and high pressure lean gas. As illustrated in Figure 4, the LPG is a mix of approximately 1/3 Pentane (C5+), 1/3 Butane (C4) and 1/3 Propane (C3). This LPG mix is then transported to a refinery where it is "fractionated" or distilled into the pure components.

Figure 4



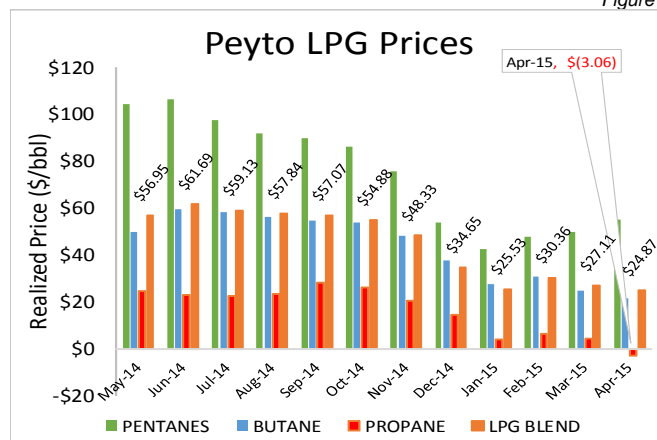
Source: Peyto

As you would expect, shutting in just the propane because its price is negative, isn't possible. You'd have to shut in the entire gas stream. Alternatively, warming up your plant process to condense less propane into liquid form (thereby leaving it in the gas phase) also leaves some butane and pentane in gas phase and those products are still worth more as liquids than gases. Plus, at some point, the gas becomes too rich to make lean gas specifications. So the decision of what to do about negative propane prices, like we've had in April and May (see Figure 5) is a much more complex one.

Our solution at Peyto has been to extract all of the more valuable liquids (C4 & C5+) that we can and then try to "push" an optimal amount of the propane back into the gas stream so

that we get paid in increased heat content in the gas rather than liquid barrels. This is often referred to as propane rejection.

Figure 5



Source: Peyto

In order to find that optimal amount, we have to consider all of the component prices and the liquid recoveries at various process conditions. We are looking for the most optimal combination of gas and liquid recoveries which yields the greatest possible revenues. This optimal combination won't necessarily yield the greatest combined production volume. But maximum production is not the point, maximum revenue is.

As I've said before, this is one of the reasons why owning and operating your own processing facilities is so important – especially when you're in the business of making money, which Peyto is.

Activity Levels and Commodity Prices

North American LNG exports are back in the headlines. The first "conditional" FID (final investment decision) of a BC LNG facility was announced by Pacific Northwest LNG (Petronas) on June 11, 2015. While Canada desperately needs to diversify its natural gas market, it appears that opposition to the site from local aboriginal groups is still a major hurdle that could derail the project.

In contrast, Cheniere Energy announced that its first LNG stage or "train" in Sabine Pass will be operational in a few months, consuming 650 MMcf/d, with 5 more trains scheduled between 2016 and 2020. In addition, they have plans for a 3 train facility at Corpus Christie, with both locations ultimately consuming some 5.5 BCF/d by 2019/2020.

Regardless of where we export natural gas from in North America, just getting it off this continent would be a good thing as it would relieve some of the oversupply that is currently depressing prices.